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# Industrial Distribution

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Rate your company's performance

41st Annual Survey of Distributor Operations

# ID Industrial® Distribution

Vol. 76, No. 7/76th yr. | A CAHNERS PUBLICATION | JULY 1987



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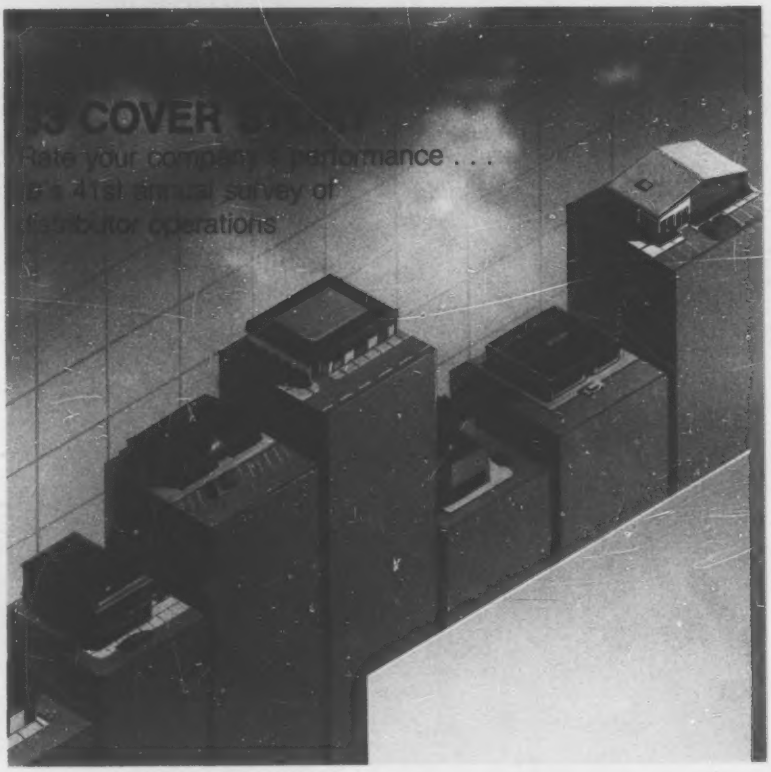

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# INDUSTRY NEWS...

## Indicators . . .

The *NIDA/SIDA Industrial Distribution Index,* which follows the sales of industrial maintenance, repair and operating equipment, surged 7.5 points in April to 151.1, the highest national index figure since Oct. 1986. The four reporting geographic areas all sustained increases. The numbers are as follows: the East was up 5.5 to 142.5; the Midwest was up 3.4 to 125.8; the West was up 6.1 to 176.7; and the South was up 18.6 to 192.8. Overall, the April 1987 total of 151.1 was up 2.8 points from April 1986 . . . The *NIDA/SIDA Industrial Supply Inflation Index* (1977=100) stood at 166.2 for April, up 0.3 points, or 0.2%, over the previous month, and up 1.8 points, or 1.1%, from April 1986 . . . *SIDA's Monthly Sales Trend Report* for March showed a strong increase from the previous month. The 70 locations reporting experienced an 8.6% increase in sales in March 1987 compared to February 1987 and a 12.7% increase in sales in March 1987 compared to March 1986. In addition, 51 of the association's locations reported increased sales in March 1987 compared with February 1987, and 44 locations reported increased sales in March 1987 compared with March 1986 . . . The *ASMMA Two-Month Moving Average Index of New Orders, Seasonally Adjusted* was up to 126.9 in March, up 2.6 points from February 1987 . . . The *Federal Reserve Board's Durable Manufacturers Index, Seasonally Adjusted,* which tracks the performance of the industrial production of durable goods, was down 0.2 points in March to 129.7. . . . The *12 Leading Indicators Index,* published monthly by the U.S. Dept. of Commerce's Bureau of Economic Analysis, was up 0.7 points in March to 187.5.□

## Niagara acquires Athol— expands distributors opportunities

NO. TONAWANDA, NY—Niagara Cutter, a manufacturer of milling cutters, end mills and special cutting tools, has acquired Athol Cutter & Carbide, Inc. of Athol. MA, a maker of metal cutting tools. The specific details of the Athol acquisition were not made available.

Roger D. Bollier, president of Niagara, said the acquisition presents distributors with the opportunity to fulfill all of their cutting tool needs from a single source of supply. "With Athol's strength in manufacturing special cutting tools and our sales and marketing capabilities, I think we'll make a great team," Bollier said.

Included in the purchase by Niag-

*[continued on page 13]*

DURABILITY
The lasting flood coolant solution
Little Giant has over two decades of experience building flood-type machine tool coolant units that last... and make sure your solution does, too. The tanks are durable, oil resistant polyethylene and heavy gauge steel. A screen trap or chip collector catches larger particles, a sump and baffle system gets smaller debris.
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# BUSINESS REPORT

## Mixed signals for second half of '87

While some economic indicators for industrial distributors were pointing up during April, to the exasperation of economists, others were pointing down. If, on the surface, such contradiction paints a perfectly foggy picture, a closer inspection of the numbers seems to mirror the nation's general economic health.

From March to April, the Federal Reserve Board noted a 0.6% decline in its Industrial Production Index. According to Cahners Economics, this drop was due largely to a 7% fall in domestic automobile production. When Detroit realized that it had over-produced to the tune of 400,000 units through the first quarter of 1987, it quickly moved to correct excess inventories.

Reflecting this shifting of gears was a 6% decline in sales registered by general line distributors in Ohio, and a 17% sales decline for specialty distributors in that same state.

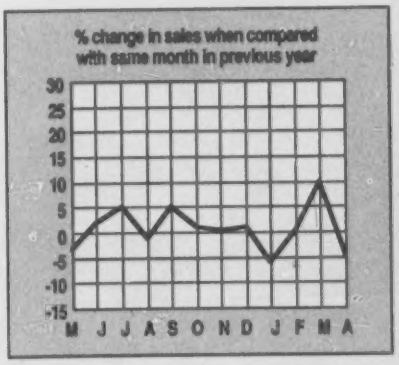
Other laggards in manufacturing were machine tools, cutting tools and forming tools, which posted a decline of 11.1%.

However, if most of the economy's bad news could be found in the manufacturing sector, most of the good news (with the notable exception of rising interest rates), was found in the consumer sector. Although levels of consumer debt have risen, the rate of increase has begun to slow.

Additionally, the April unemployment rate fell by 6.3% to its lowest level since March of 1980, and sales of major appliances shipped in April rose by 10.4%. Despite this good news, consumer spending is expected to be softer in the industrial sector.

For the remainder of 1987, Cahners Economics sees both interest rates and the Dow Jones Industrial Average holding steady, a lower growth rate for the GNP and an end to the dollar's decline.

—J. Bonnanzio




**RECEIVABLES***

| | April '87 vs. April '86 | | | |
|---|---|---|---|---|
| | Gen. | Spec. | Gen. | Spec. |
| New England | — | 51 | — | 49 |
| Middle Atlantic | 42 | 44 | 42 | 42 |
| South Atlantic | 32 | 35 | 32 | 36 |
| East No. Central | 34 | 37 | 38 | 37 |
| East So. Central | — | 33 | — | 30 |
| West No. Central | 38 | 42 | 39 | 37 |
| West So. Central | — | 35 | — | 36 |
| Mountain | 35 | — | 36 | — |
| Pacific | 38 | 41 | 40 | 43 |
| National | 36 | 40 | 38 | 39 |

*Average days outstanding

**SALES BY REGIONS (% change)**

| | April '87 vs. March '87 | | | April '87 vs. April '86 | | | First 4 mos. '87 vs. First 4 mos. '86 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Gen. | Spec. | Both | Gen. | Spec. | Both | Gen. | Spec. | Both |
| **New England:** CT, RI, MA, NH, VT, ME | — | +1 | — | — | −2 | — | — | +2 | — |
| Connecticut | — | −8 | — | — | −35 | — | — | −11 | — |
| Massachusetts | — | +6 | — | — | +17 | — | — | +7 | — |
| **Middle Atlantic:** NY, NJ, PA | +11 | −5 | 0 | −8 | −9 | −8 | −13 | −5 | −7 |
| New York Metropolitan Area | — | −8 | — | — | −6 | — | — | −4 | — |
| Upstate New York | +25 | −2 | +13 | −8 | −1 | −5 | −10 | 0 | −5 |
| Pennsylvania | +9 | +2 | +2 | −6 | −15 | −12 | −8 | −8 | −8 |
| **So. Atlantic:** DE, DC, MD, VA, WV, GA, NC, SC, FL | −9 | −12 | −11 | −10 | +7 | +2 | 0 | +8 | +5 |
| Georgia-Florida | 0 | −13 | −11 | +2 | +11 | +9 | +10 | +8 | +9 |
| **East No. Central:** OH, IL, IN, MI, WI | 0 | −12 | −6 | +2 | −1 | 0 | 0 | −2 | −1 |
| Indiana | — | −4 | — | — | −3 | — | — | +6 | — |
| Wisconsin | −12 | −3 | −7 | 0 | +5 | +3 | +7 | −2 | +2 |
| Chicago | — | — | — | — | — | — | — | — | — |
| Michigan | — | −12 | — | — | −16 | — | — | −11 | — |
| Ohio | −6 | −17 | −13 | −19 | +14 | −3 | −17 | +5 | −6 |
| East So. Central: AL, MS, KY, TN | −7 | +3 | −1 | −11 | +3 | −4 | +10 | −1 | +4 |
| **West No. Central:** MN, ND, SD, IA, NE, KS, MO | −1 | +6 | +1 | +10 | +12 | +11 | +10 | +9 | +10 |
| **West So. Central:** AK, LA, OK, TX | — | +6 | — | — | −12 | — | — | 0 | — |
| Texas | — | +6 | — | — | −12 | — | — | 0 | — |
| **Mountain:** NM, AZ, CO, UT, NV, WY, MT, ID | −8 | — | — | −6 | — | — | −3 | — | — |
| **Pacific:** CA, OR, WA | −15 | −17 | −16 | −9 | 0 | −4 | −1 | +10 | +5 |
| LA-San Diego | — | — | — | — | — | — | — | — | — |
| Oregon-Washington | −18 | −17 | −18 | −15 | −3 | −8 | −7 | +9 | +2 |
| **U.S. TOTALS** | +1 | −8 | −4 | +1 | 0 | +1 | +1 | +1 | +1 |

# HOTLINE

# Consolidations promise new market strategies

**The continuing rash of mergers and acquisitions is generating new and unique opportunities for distributors.**

The distribution industry is on the verge of major changes with consolidation playing a major role, according to a newly released study by a Chicago stock brokerage firm.

In the report, titled *The Wholesale Distribution Industry*, William F. Jelin, a senior securities analyst with the Chicago Corp., predicts consolidation will lead to fewer and stronger competitors and a higher percentage of publicly owned distributorships.

"It's been too easy for too long for many industrial distributors," Jelin says. "What made their ideas work five to ten years ago may not lead to success today. There are going to be major changes ahead."

Jelin says the challenge for distributors is identifying opportunities in which management and capital resources can maximize the "clout" within their chosen distribution channels. One way for distributors to achieve that clout is through geographic expansion by acquisition, the report says.

A company that recently followed that route is the Valin Corp. in Sunnyvale, CA, which recently acquired the Metropolitan Supply Co. of Carson, CA. The acquisition led to the creation of one of the largest fluid power distributors on the West Coast.

By combining the companies, Valin's sales should be in excess of $20 million this year and Valin, which traditionally sold products in northern California and western Nevada, now has a presence in southern California and Arizona.

Alan B. Vidinsky, president of Valin Corp., points out that an acquisition can allow a company to expand even when the economy isn't growing substantially.

"You grow to a certain point where you achieve a high market share and meet internal goals. Then you have to make a decision . . . to go into another line or do the same type of business and expand geographically," he says. Since Valin and Metropolitan were in similar businesses, "there was no learning curve involved and at the same time we increased our geographic penetration," Vidinsky adds.

**Wholesale-distribution acquisitions**

| Year | Acquisitions | Dollar value |
|---|---|---|
| 1983 | 107 | $365 million |
| 1984 | 143 | $1.7 billion |
| 1985 | 194 | $1.9 billion |
| 1986 | 160 | $1.7 billion |

Source: W.T. Grimm & Co., Chicago, IL

Gary Buffington, executive vice president, Southern Industrial Distributors Assn., says he has seen many of his members consolidating their distributorships in the past few years. "It makes good economic sense in many instances to consolidate," he says. "And you're going to see more consolidation in the future."

The Chicago Corp. notes that acquisitions and mergers for mid-size and larger firms also permit expansion of product lines and increased market share. Internal growth also can come through joint ventures with wholesalers in non-competitive lines, in which warehouse, delivery and other resources would be shared.

Also, the Chicago Corp. says more value-added services may be provided, mainly in areas previously covered by suppliers or customers, thus increasing the importance of a specific distribution channel. Growing in importance will be online computerized ordering, systems selling, "just-in-time" inventory programs, and customized applications and packages.

Here are some growth strategies the Chicago Corp. sees emerging for distributors:

- adding foreign product lines,
- adopting more of a retailer's role through catalog sales or by operating wholesalers' clubs,
- increasing certain manufacturer-type activities such as repackaging, first-stage processing and fabrication,
- selling byproducts or wholesale-distribution to new markets such as computer software and marketing information,
- diversifying into new or complementary lines in an attempt to leverage current facilities or systems use.

There are many benefits to distributors increasing in size, the Chicago Corp. report says. Those advantages include achieving volume discounts in purchasing, the ability to offer lower prices to customers, better financing, greater ability to develop value-added services, the ability to leverage the use of larger warehouses that can accommodate a variety of product lines, and better management expertise in relation to total sales.

But there will always be a place for the smaller firm with an entrepreneurial focus that implements an effective marketing strategy. "The small size of the markets or product lines in which these smaller firms are most efficient often makes it uneconomical for larger companies to compete with them," Jelin says.

The bottom line, the security analyst concludes, is that industrial distributors are facing tremendous changes in the next several years, more so than at any time in recent history. How distributors react to changes in the marketplace will determine their futures.

**—Jack Keough**

# Profits up despite lagging sales

41ST ANNUAL SURVEY OF DISTRIBUTOR OPERATIONS

**Distributors controlled spending and adopted strategic cost-cutting measures to record profits last year despite sluggish sales. This follows a year, 1985, in which very slight gains were reported.**

The Federal Reserve Board's *Index of Industrial Production* (see graph) gained a slim 1.4%, from 124.5 in 1985 to 126.2 in 1986. Distributor sales volume figures, not keeping pace, showed a slight decline of 0.5%, or from $50.1 billion in 1985 to $49.8 billion in 1986. After allowing for an approximate 3¼% inflation rate, the industry experienced a sales decline of nearly 4%.

Specialists fared better than general line distributors, as was the case in last year's survey, but this time only slightly better as business figures overall were mixed.

For complete business data, see graphs and analyses in the following pages under **Profit and loss, Operating costs, Inventory and receivables, Business trends, Personnel, Warehouse space,** and **Computers and EDP.** To compare your firm's overall performance figures with both national and regional statistics, see the **Condensed table for comparison and analysis** at the end of this report. Statistics and analyses of combination houses follow the condensed table.

### Coping with another lean year

Hard pressed to cut operating costs, distributors sharply cut spending for new EDP equipment and other improvements. Smaller firms held the line on adding stocking locations, while larger concerns moved more aggressively. Both gen-

eral liners and specialists managed to keep total operating expenses at approximately last year's levels.

General liners saw both sales per employee and gross profit per employee fall in 1986 compared to '85, while specialists enjoyed small gains. Return on investment (ROI) fell for all distributors.

The leveling off of insurance costs was one plus for distributors last year, after having experienced sharp gains in 1985. Nevertheless, distributors indicate they are considering insurance, payroll and fringe cuts this year to further reduce costs. Total compensation figures (payroll plus fringes) dropped significantly in 1986 compared to 1985.

### Sober '87 forecasts

The optimism expressed in last year's survey, especially for sales, is missing in this year's predictions. With the exception of the South Central region of the country, the highest prediction for sales increases does not exceed 10.7% (South Atlantic), with the lowest at 10.3% (Northeast)—a remarkably narrow range. The South Central region predicts the highest sales, 14.5%, and higher price inflation, 5.4%, than the rest of the country.

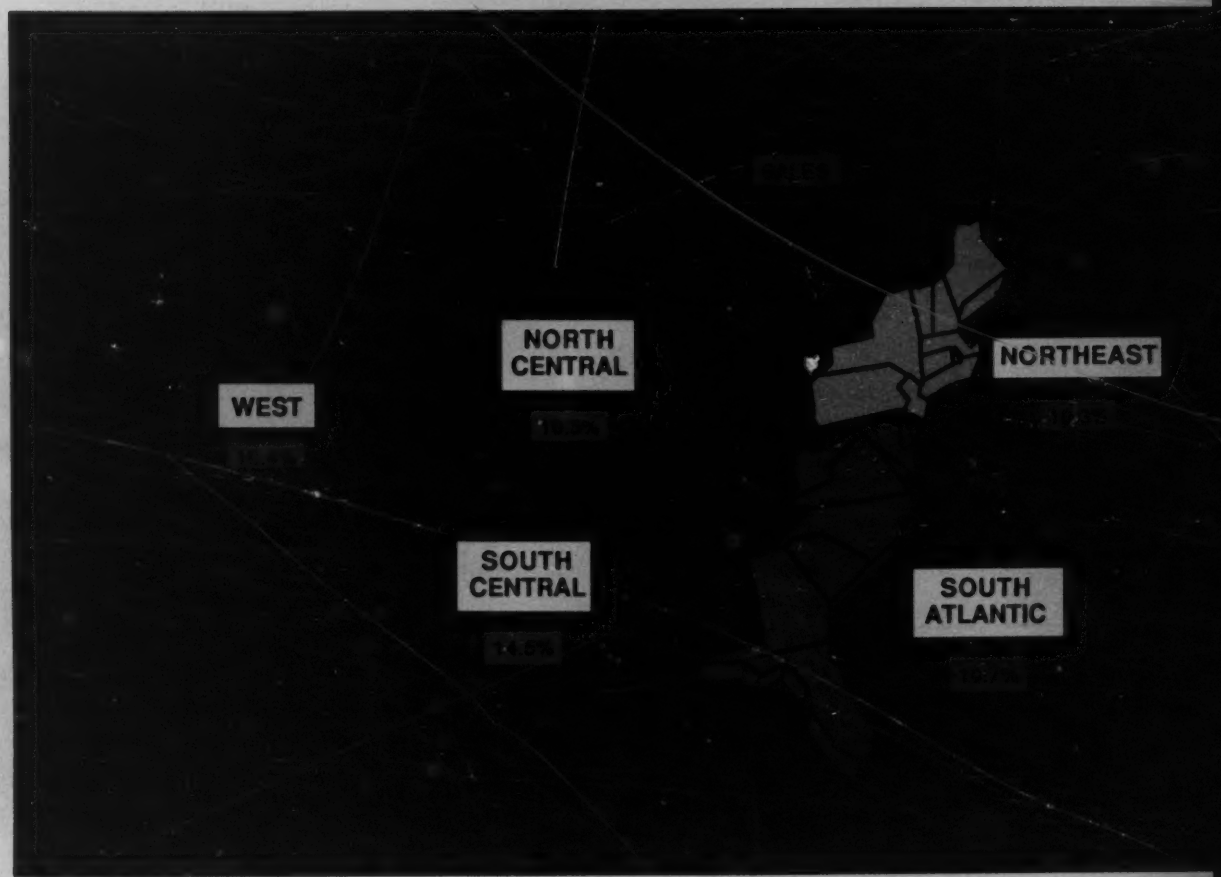
Low inflation overall is the consensus of distributors contributing to this survey. However, with the recent rise in interest rates, higher monthly consumer price index figures and rising commodity prices, greater-than-anticipated price increases for products could take hold in the second half of this year.

Not all distributors predicted sales increases for 1987. Nearly 6% of the total respondents predicted a sales decline in 1987, with the rate of decrease at 6.2% for general liners and 6.5% for specialists.

Other 1987 predictions on the hiring of employees for both inside and outside sales, covered later in this report, support a cautious, although not necessarily negative, approach to business this year.□

### Medians and averages

All percentages used in this survey are medians, unless otherwise specified. The median number is larger than or equal to half of a group of numbers and equal to or smaller than the other half. In the series 4, 4, 5, 7, and 10, the median is 5. The average of this series is 6 (30 divided by 5). The median number is more representative of a group being surveyed, since it will not be distorted by either extremely large or extremely small numbers.



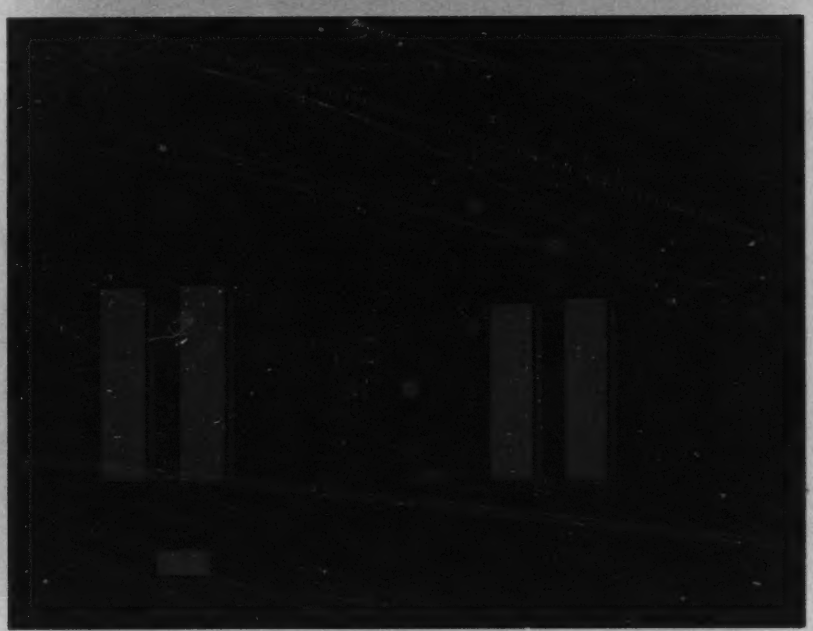
## Profit and loss

Gross profit dropped slightly for general liners (2.1%) and rose slightly for specialists (3%), with other business statistics mixed. Only net profit-after-tax figures showed both general liners and specialists ahead, 1986 over '85. Shelf-stock sales declined with gross profit as a percent of shelf-stock sales, indicating a small loss for general liners and an almost similar gain in magnitude for specialists.

Net profit before tax declined 6.7% for general line houses but rose 3.1% for specialists. As net profit after tax increased for both general liners and specialists, 8.7% and 3.8% respectively, 1986 was by no means a losing year for distribution, despite mediocre sales figures.

Return on investment, however, was down 6.7% for general liners, falling a sharp 14.9% for specialists. Shelf-stock sales were flat for general line houses, falling 3.1% for specialists. Gross profits as a percent of shelf-stock sales declined a slim 1.9% for general liners, but were up slightly for specialists, at 2.5%.

National and regional figures in the condensed do-it-yourself table at the end of this report follow, for the most part, this mixed pattern of general business statistics. Although 1985 comparisons and percent changes are not given, room is provided for your statistics to be plugged in and comparisons made.□



*The complete **41st Annual Survey of Distributor Operations** is available in report form. It contains over 200 pages of original statistics broken down to provide detailed analyses of individual operations across the board, as well as comparisons of any distributor's performance against regional or national norms. A single copy is $150.00 prepaid. Write: **Industrial Distribution**, Cahners Publishing Co., 275 Washington St., Newton, MA 02158-1630, Attn: Susan Lawler, or call (617) 964-3030.*

## Operating costs

Total operating expenses rose only 1.6% for general liners and were even or zero for specialists in 1986 vs. 1985. These statistics indicate a very conservative approach to spending by distributors. Other statistics under operating costs, outlined below, bear this out.

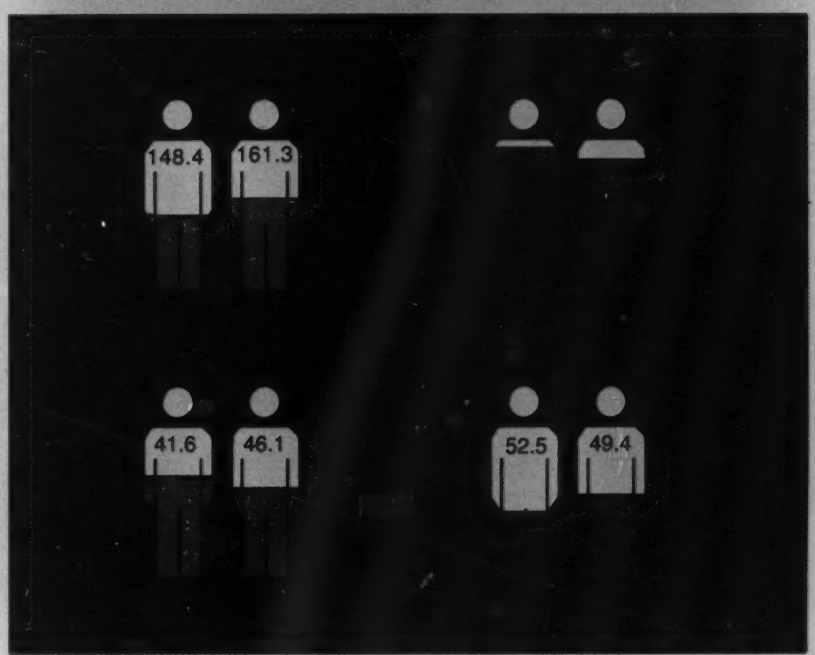
Total insurance costs as a percent of total sales rose less than 1% for general liners but just over 10% for specialists. Figures indicate that there was a leveling off of insurance costs in 1986, although there are indications that a significant number of distributors decided to get by with less total insurance coverage than in the past.

EDP costs, however, provide unmistakable evidence of a decline in spending, reflected in sharp drops in inside EDP sales—sales of equipment for internal use—of 16.3% and 20.9% for general liners and specialists respectively. Drops can also be seen in outside EDP sales—sales of outside services; 5.9% for general liners and 8% for specialists. (See graphs and percentage comparisons included under **Computers and EDP.**)

Sales-per-employee as well as gross-profit-per-employee figures were mixed. For general liners, the figures were down 8% and 9.8% respectively, while specialists saw respective gains of 3.2% and 6.3%.

Trends discerned in mid-1987 as this survey was being compiled indicate an across-the-industry campaign to curtail costs. Stock replenishment is more selective with many shelves empty of secondary and tertiary items. Sales calls and merchandising are being streamlined or reduced; branch inventory and purchasing are being restricted or centralized; warehouse mechanization and other blue collar improvements remain on hold.

Distributors are determined to sustain customer service. The industry will compensate for smaller inventories and curtailment of some operations by measures such as drop-shipping and improved systems contracting.□



## Inventory and receivables

Few discernible trends could be evidenced from 1986 figures on inventory, receivables and stock turns for distributors.

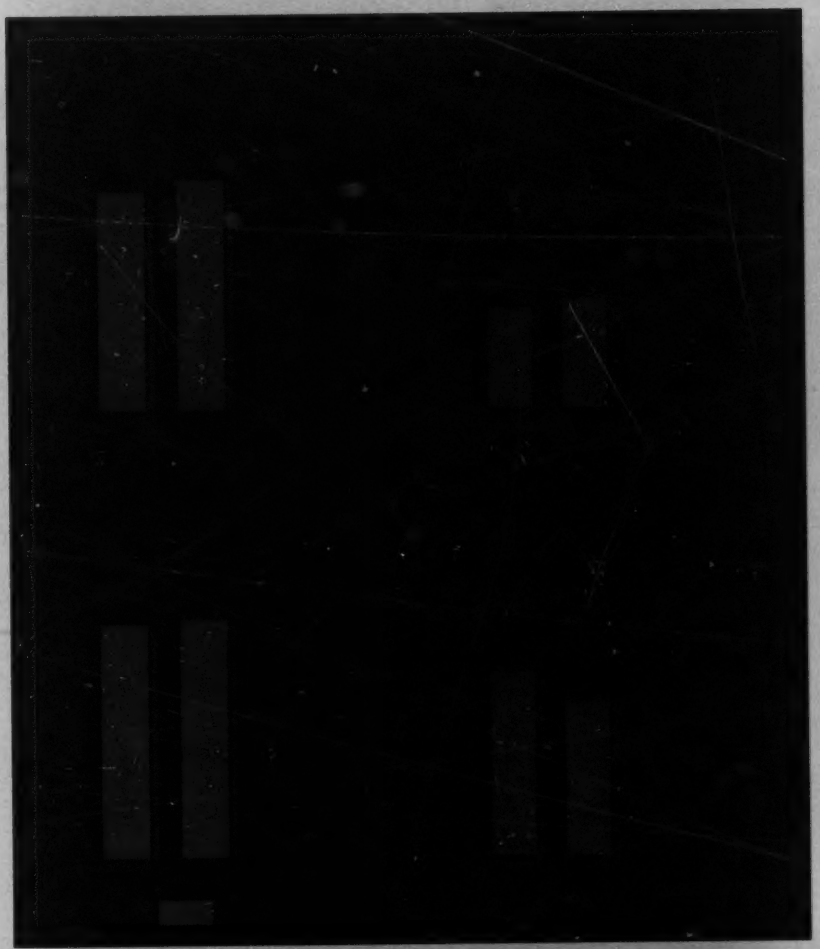
Average monthly inventory fell 5.3% for general liners but rose 4.2% for specialists. Receivables dropped 7.8% for general liners but rose 10.1% for specialists. Stock turns rose a healthy 17.9% for general liners but fell 3.8% for specialists. (Stock turns were calculated by multiplying the percent of shelf-stock sales at cost by total sales and dividing the result by the average monthly inventory value.) Only in collections were general liners and specialists close, falling 1.4% and 0.7% respectively.

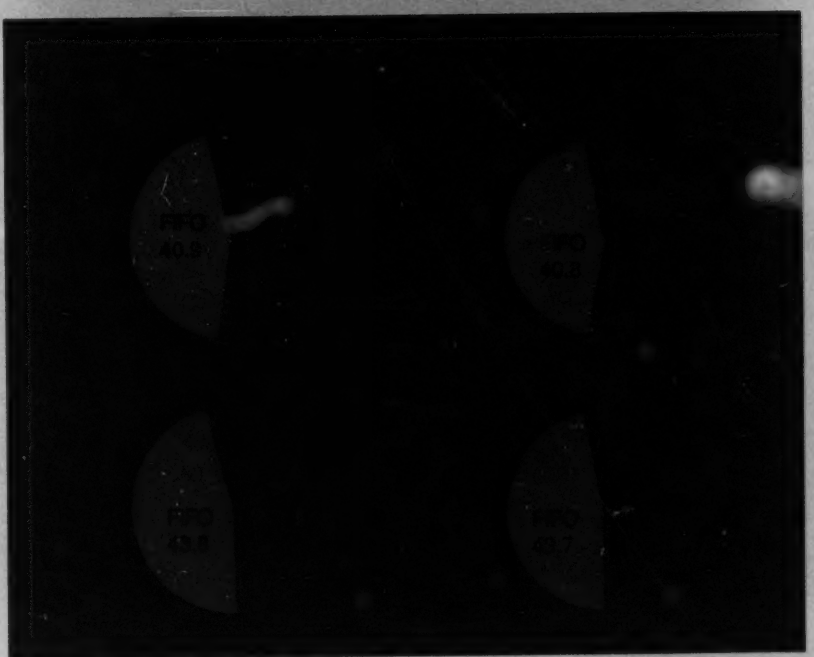
With interest rates having fallen substantially in 1986 and the inflation rate low, collections were expected to drop. The national and regional tables at the end of this report bear this out.

Distributors' preferences in how they handled inventory valuation showed little change in 1986 compared to '85, with very little change indicated over several years. FIFO (first-in-first-out) inventory rose for both types of distributors by insignificant amounts in 1986. LIFO (last-in-first-out) inventory dropped 1.6% for general liners and 1.9% for specialists.

Last year's spotty sales were less a drain on specialists than on general line distributors. With shallower inventories to maintain, specialists optimistically replenished or added inventory. General line distributors, who were faced with carrying inventory in depth, invested less in slow sellers while maintaining their capital A items in order to sustain service to key customers.

Significantly, the *ID* survey shows specialized distributors dramatically increased their receivables (10.1%) compared to general line distributors' loss (8.7%). This indicates that in times of economic stress, the buyer often turns to the specialists to provide machine components and supplies for keeping existing equipment in operation. □





## Business trends

Survey returns indicate that smaller distribution houses are not likely to expand stocking locations in 1987, while a significant percentage of the larger houses have expansion plans. Figures are mixed for 1986 vs. 1985, although the larger distributorships appear to have been more active in expanding operations.

The number of distributors with only one stocking location declined almost 3% in 1986 for general liners and 1.2% for specialists, compared to 1985 figures. Projections for 1987 are generally inconclusive for both types of distributors.

Although the "two"-stocking-location category gained for general line and specialist distributors in 1986, both are negative on expansion in 1987. In the "three" category, general line and specialist distributors predict increases in 1987 of 23.4% and 41.3% respectively.

Invoicing statistics representing the number of invoices per year fell 8.7% for general liners and 9.3% for specialists. In the lines-of-billing category, general liners were at zero or stayed even, while specialists rose a modest 2.9%.

The percent of gross profit from cash discount, an elusive figure to obtain before computerization simplified the recordkeeping, shows a drop of 6.7% for general line houses, with specialists moving up 11.1%.

The prevailing mood is "wait and see," particularly now that many economists are tempering their forecasts with talk of an impending recession (in some cases a deep recession) in 1988. Meanwhile, at association meetings and elsewhere, discussions center around moves by distributors toward more aggressive marketing, tapping into new markets, particularly high-tech, and streamlining internal operations mainly through sales- and service-oriented telecommunications.□

*Complete copies of the 41st Annual Survey of Distributor Operations are available in report form. For more information, see pg* 35

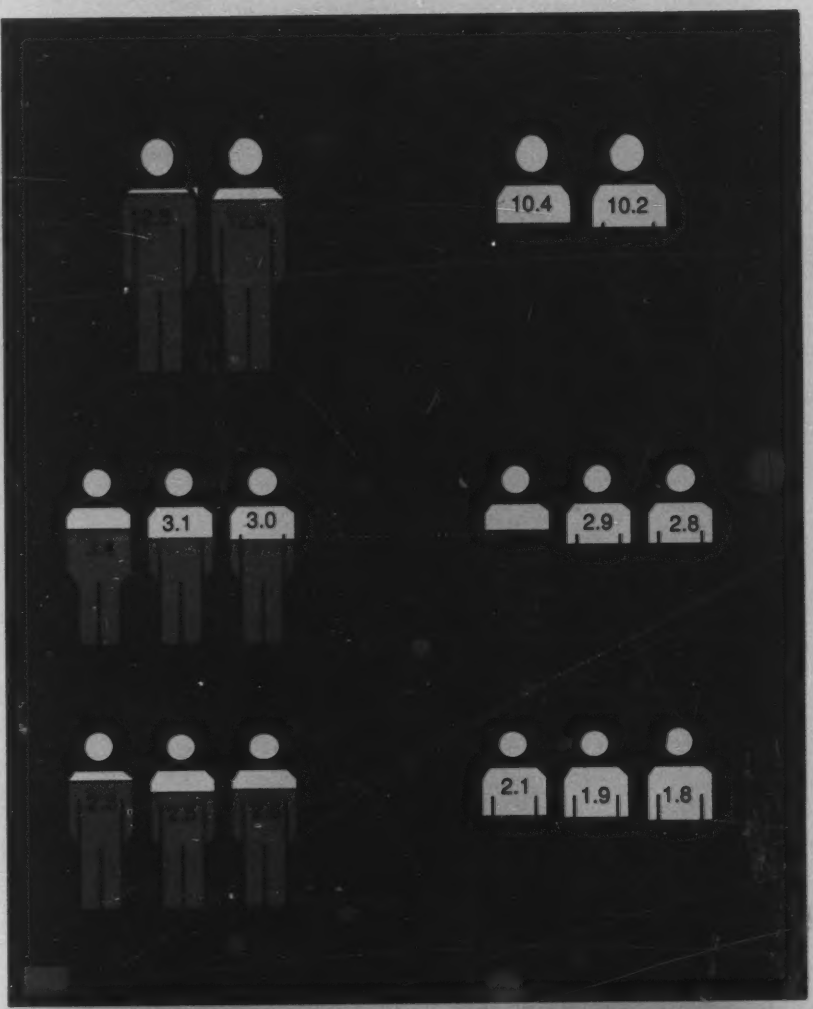
## Personnel

Personnel figures show small increases in 1986 in the number of full-time employees as well as outside salespeople. Inside-sales figures were down for general liners and up for specialists. Total compensation fell in both distributor categories.

A gain of 3.2% in personnel for general liners and 2% for specialists, 1986 over '85, indicated some continued business strength in the industry and certainly no fear of recession at year's end. This feeling is also reflected in '87 forecasts that show an intended increase of outside sales personnel of 9.7% by general liners and 13.8% by specialists.

For inside sales in 1987, the figures predict a personnel increase of 12% for general liners and 22.2% for specialists. In 1986, general liners decreased inside sales personnel 3.8%, while specialists showed a 5.6% increase.

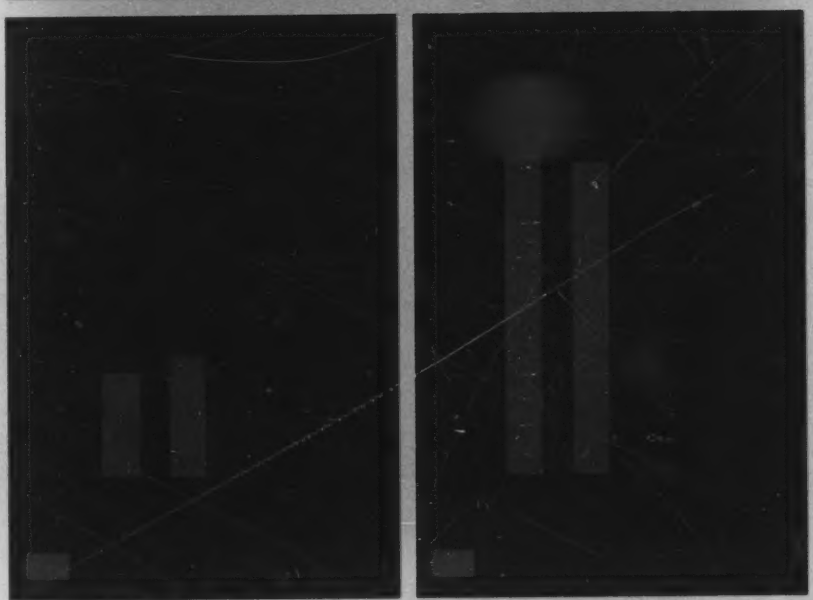
Total compensation figures fell a significant 14.8% for general liners and 8.2% for specialists in 1986. These statistics indicate a drive by distributors to cut overhead. In last year's survey, compensation had fallen only slightly for general liners and had risen appreciably for specialists.□



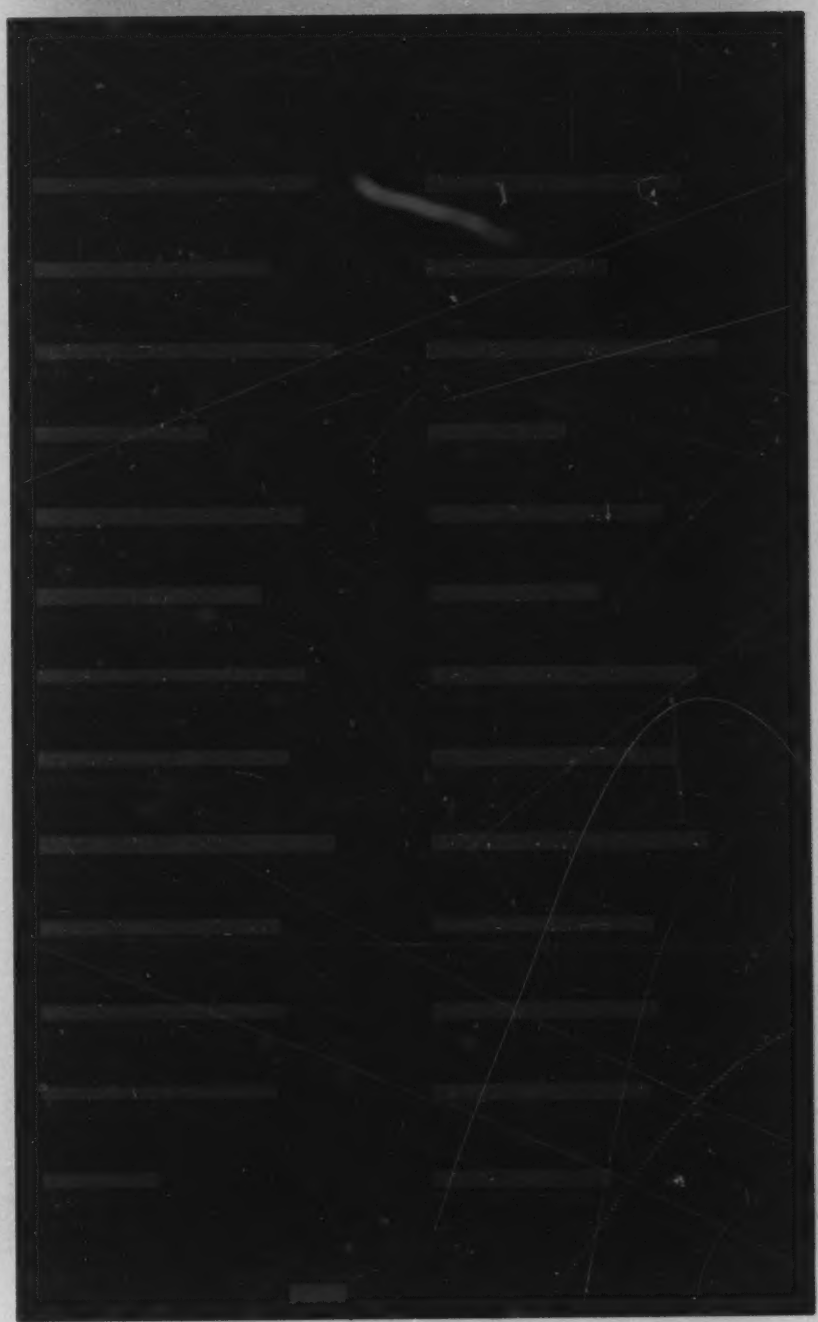

## Warehouse space

Total warehouse space increased only 1.1% for general line distributors, but rose over 12% for specialists. Some 21% of general liners and 19% of specialists surveyed reported they intended to add space in 1987. Almost 80% of the general liners and 81% of the specialists indicated they intended to reduce warehouse space this year.

Expanding warehouse space is one of the few investments distributors appear to favor. Reason: the value of real estate, particularly in developed business and industrial centers, will continue to climb indefinitely.□



## Computers and EDP



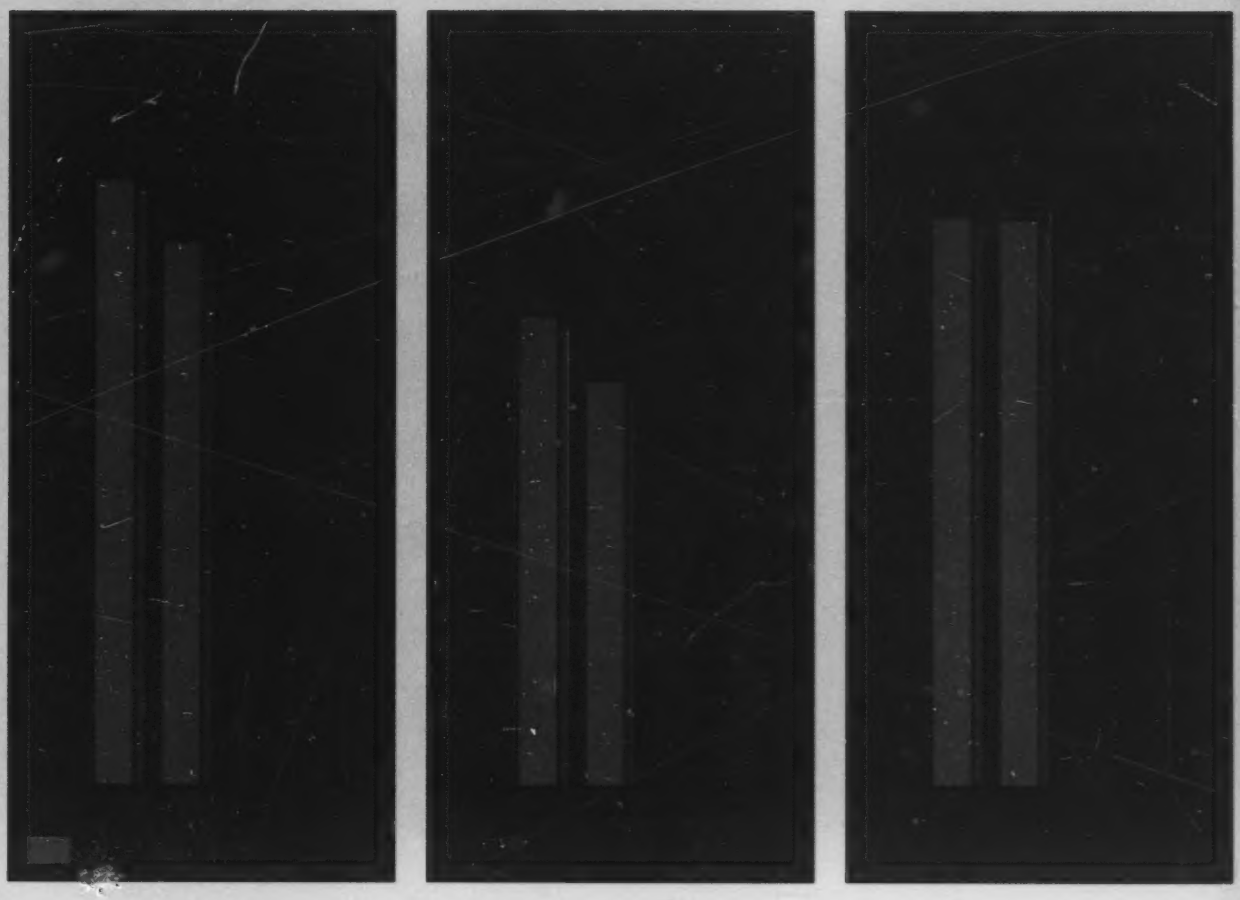
A sharp drop in spending for EDP systems in 1986 is evident, the first drop since the heavy buying of systems began in 1983. Only a small percentage of distributors computerized in 1986, the amount tapering off due to the fact that the industry is now over 75% committed to EDP hardware and software. Applications, however, continued to increase.

Over 76% of general line houses and 72% of specialists are now computerized, with increases of 1.3% and 6.2% respectively over 1985. In 1984, the figures were 67% and 65%. The small increase may be partially due to the maturity of the industry in this area, but the economic persistence of slow growth over the past few years may also be a factor.

A new category, "word processing," was added to the survey this year and, as the graph indicates, is the fastest growing area of computer use; general liner use was up 25.7% and specialist use was up 27.2%, 1986 over '85. The accent on marketing, especially in the past year, must be related to this growth and certainly more growth is expected this year in word processing.

In other categories, accounts receivable continues to record the highest percent of computer applications, 89.3% for general liners and 88.6% for specialists, followed by billing at 89.3% and 83.8% respectively. The other leaders include accounts payable and sales analysis. Payroll still accounts for a relatively small percent of use, with 52% for general line houses and only 41.9% for specialists.

Another area of use that continues to grow for distributors is perpetual inventory recording which now constitutes 84% for general liners and 76.6% for specialists. Almost all computer application categories were up in 1986, indicating a growing dependence by distributors not only on hardware but particularly on advanced equipment.□



## Combination houses

***The information on the preceding pages covers firms qualifying as industrial distributors—those companies that sell industrial and related products to manufacturing, construction, mining, and other industrial users. The following section offers information on that segment of distribution that divides its business between industrial and non-industrial markets, such as the automotive aftermarket and the wholesaling of plumbing or electrical supplies.***

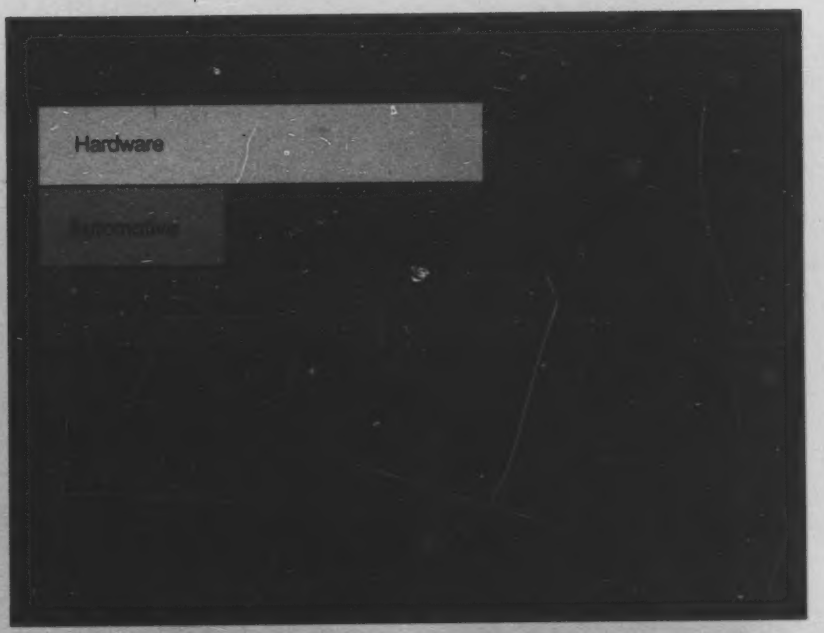
Combination houses had a median sales increase of 3.2% in 1986, slightly lower than the 3.3% recorded in 1985 (not plotted graphically). The gross profit figure for both general liners and specialists combined was 23.1% in 1986 vs. 22.9% in '85, up only 0.2%.

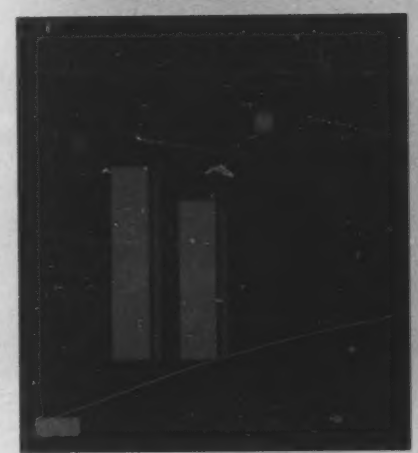
Overall figures indicate a slight improvement in sales but mixed results in profits for the past year. Total sales were up 11.5% for general liners, from $4.3 million in 1985 to $4.8 million in '86, and 4.3% for specialists, from $2.3 million in 1985 to $2.4 million in '86. Although gross profit improved 2.2% for general line houses in 1986, it fell by the same percentage for specialists (see graph).

Other statistical comparisons indicate flat shelf-stock sales, year to year, for both general liners and specialists. Also, in an area where specialists continue to outperform generalists, average monthly inventories were up less than 1% for generalists, ahead 25% for specialists.

The small increase in total sales for specialists depressed their stock turns 17%, from 4.7 in 1985 to 3.9 in '86, while general liners improved stock turns 10.3%, from 3.9 in 1985 to 4.3 in '86. Collections showed very little difference for both general liners and specialists, dropping about 2% for the former, rising the same amount for the latter. This is surprising given the rapid fall in interest rates in 1986 with little concern for inflation throughout the year. Receivables in terms of number of days fell in many other industries in 1986.

For all combination houses the greatest proportion of products sold in the past year was electrical, totaling 48.5%, up 2% from last year's survey. Undoubtedly, the sharp increase in new home construction contributed to this demand. Plumbing and heating products accounted for 37.8% of combination house sales, followed by hardware at 32.7%, automotive at 13.8%, and metal service products at 9.2%. Miscellaneous items in the "other" category contributed 17.3% to total sales volume.





Non-industrial sales continue to rise for combination houses. Since the 1982-83 recession, demand for product sales in the industrial markets has fallen, while sales into special areas of the non-industrial market have risen. Although last year's figures are not repeated for comparison in this category, the increase in non-industrial sales has been approximately 2% per year since 1984.

Other analyses of combination houses (not plotted graphically) show that while both generalists and specialists project slight increases in their staffs in 1987, the increases are not significant to constitute a meaningful percentage. With regard to warehouse space, 6.6% of general liners and 19% of specialists report having expanded space in 1986. Additionally, 9.8% of general line houses and 4.8% of specialty shops plan to open new stocking locations in 1987.□

## Condensed table for comparison and analysis

| | National '86 | National '85 | Your figures | Northeast '86 | Northeast '85 | Your figures |
|---|---|---|---|---|---|---|
| Total sales ($ millions) | 1.9 | 1.9 | | '2.3 | 2.4 | |
| Cost of goods sold (% of total sales) | 72.5 | 72.1 | | 71.4 | 71.1 | |
| Gross profit (% of total sales) | 27.6 | 27.3 | | 29.8 | 29.3 | |
| Total operating expenses (% of total sales) | 25.0 | 24.8 | | 25.7 | 25.6 | |
| Net profit before tax (% of total sales) | 3.1 | 3.1 | | 2.6 | 2.8 | |
| Net profit after tax (% of total sales) | 2.6 | 2.5 | | 2.3 | 2.5 | |
| ROI (return on net worth) | 7.3 | 7.7 | | 6.1 | 6.7 | |
| Sales per employee ($000) | 171.2 | 171.2 | | 172.9 | 196.7 | |
| Gross profit per employee ($000) | 47.2 | 46.7 | | 51.5 | 57.6 | |
| Monthly inventory value (LIFO, $000) | 294.0 | 316.0 | | 183.0 | 180.0 | |
| Receivables value as of Dec. 31 ($000) | 190.0 | 192.0 | | 179.0 | 200.0 | |
| No. days outstanding as of Dec. 31 ($000) | 42.6 | 42.9 | | 43.2 | 42.6 | |
| No. of invoices billed (000) | 7.2 | 7.7 | | 9.8 | 11.8 | |
| No. of lines billing per invoice | 3.6 | 3.5 | | 3.9 | 3.7 | |
| No. of employees | 11.1 | 11.1 | | 13.3 | 12.2 | |
| No. of outside salespeople | 3.0 | 2.9 | | 3.0 | 2.9 | |
| No. of inside salespeople (phone & counter) | 3.3 | 3.1 | | 3.5 | 3.4 | |
| Warehouse sq ft (including branches, 000) | 8.4 | 7.9 | | 9.5 | 8.6 | |
| No. of branch locations | 1.2 | 1.2 | | 1.2 | 1.2 | |
| Total payroll & fringes (avg., $000) | 307.0 | 349.6 | | 322.5 | 371.0 | |

| | South Atlantic '86 | South Atlantic '85 | Your figures | North Central '86 | North Central '85 | Your figures |
|---|---|---|---|---|---|---|
| Total sales ($ millions) | 1.6 | 1.6 | | 2.0 | 1.8 | |
| Cost of goods sold (% of total sales) | 73.1 | 73.6 | | 73.5 | 72.7 | |
| Gross profit (% of total sales) | 26.8 | 25.0 | | 26.2 | 26.7 | |
| Total operating expenses (% of total sales) | 24.8 | 24.1 | | 24.5 | 24.5 | |
| Net profit before tax (% of total sales) | 2.7 | 2.9 | | 2.7 | 3.1 | |
| Net profit after tax (% of total sales) | 2.2 | 2.4 | | 2.5 | 2.4 | |
| ROI (return on net worth) | 11.7 | 9.0 | | 9.9 | 7.7 | |
| Sales per employee ($000) | 125.0 | 136.8 | | 192.3 | 176.5 | |
| Gross profit per employee ($000) | 33.5 | 34.2 | | 50.4 | 47.1 | |
| Monthly inventory value (LIFO, $000) | 494.0 | 525.0 | | 280.0 | 311.0 | |
| Receivables value as of Dec. 31 ($000) | 179.0 | 100.0 | | 182.0 | 186.0 | |
| No. days outstanding as of Dec. 31 ($000) | 41.0 | 41.2 | | 42.0 | 42.8 | |
| No. of invoices billed (000) | 7.1 | 6.3 | | 6.8 | 6.8 | |
| No. of lines billing per invoice | 3.5 | 3.2 | | 3.4 | 3.4 | |
| No. of employees | 12.8 | 11.7 | | 10.4 | 100.2 | |
| No. of outside salespeople | 2.9 | 2.7 | | 3.1 | 2.9 | |
| No. of inside salespeople (phone & counter) | 3.4 | 3.0 | | 3.1 | 3.1 | |
| Warehouse sq ft (including branches, 000) | 8.3 | 7.8 | | 7.6 | 7.5 | |
| No. of branch locations | 1.2 | 1.2 | | 1.2 | 1.2 | |
| Total payroll & fringes (avg., $000) | 381.2 | 328.0 | | 309.4 | 343.2 | |

| | South Central '86 | South Central '85 | Your figures | West '86 | West '85 | Your figures |
|---|---|---|---|---|---|---|
| Total sales ($ millions) | 2.1 | 2.3 | | 1.8 | 1.7 | |
| Cost of goods sold (% of total sales) | 73.1 | 72.5 | | 70.5 | 70.2 | |
| Gross profit (% of total sales) | 26.5 | 26.5 | | 29.4 | 28.7 | |
| Total operating expenses (% of total sales) | 25.8 | 25.0 | | 24.6 | 24.7 | |
| Net profit before tax (% of total sales) | 3.3 | 3.1 | | 4.5 | 4.0 | |
| Net profit after tax (% of total sales) | 2.3 | 2.3 | | 3.6 | 2.8 | |
| ROI (return on net worth) | 4.0 | 4.2 | | 7.5 | 13.5 | |
| Sales per employee ($000) | 200.0 | 195.0 | | 211.7 | 212.5 | |
| Gross profit per employee ($000) | 53.0 | 51.7 | | 62.3 | 54.2 | |
| Monthly inventory value (LIFO, $000) | 357.0 | 447.0 | | 257.0 | 275.0 | |
| Receivables value as of Dec. 31 ($000) | 231.0 | 200.0 | | 200.0 | 250.0 | |
| No. days outstanding as of Dec. 31 ($000) | 43.3 | 43.2 | | 43.7 | 44.2 | |
| No. of invoices billed (000) | 7.8 | 7.5 | | 4.5 | 4.9 | |
| No. of lines billing per invoice | 3.7 | 3.7 | | 3.5 | 3.6 | |
| No. of employees | 10.5 | 11.8 | | 8.5 | 9.0 | |
| No. of outside salespeople | 3.1 | 3.2 | | 2.6 | 2.7 | |
| No. of inside salespeople (phone & counter) | 3.4 | 3.4 | | 2.9 | 2.8 | |
| Warehouse sq ft (including branches, 000) | 8.9 | 8.7 | | 8.1 | 8.0 | |
| No. of branch locations | 1.3 | 1.2 | | 1.3 | 1.3 | |
| Total payroll & fringes (avg., $000) | 347.0 | 341.0 | | 272.0 | 348.6 | |

*Note: all figures are in medians, except where averages are specified.*